

**REPORT OF THE AUDIT OF THE  
FORMER CLINTON COUNTY  
SHERIFF'S SETTLEMENT - 2014 TAXES**

**For The Period  
April 16, 2014 Through December 31, 2014**



**ADAM H. EDELEN  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

**209 ST. CLAIR STREET  
FRANKFORT, KY 40601-1817  
TELEPHONE 502.564.5841  
FACSIMILE 502.564.2912**



**EXECUTIVE SUMMARY**

**AUDIT EXAMINATION OF THE  
FORMER CLINTON COUNTY  
SHERIFF'S SETTLEMENT - 2014 TAXES**

**For The Period  
April 16, 2014 Through December 31, 2014**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2014 Taxes for the former Clinton County Sheriff for the period April 16, 2014 through December 31, 2014. We have issued an unmodified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The former Sheriff collected taxes of \$2,718,366 for the districts for 2014 taxes, retaining commissions of \$111,871 to operate the former Sheriff's office. The former Sheriff distributed taxes of \$2,605,978 to the districts for 2014 taxes.

**Report Comments:**

- 2014-001 The Former Sheriff's Office Lacked Adequate Segregation Of Duties Over Accounting Functions
- 2014-002 The Former Sheriff Did Not Prepare And Print Daily Tax Collection Journals And Make Deposits Intact Daily
- 2014-003 The Former Sheriff Did Not Properly Account For All Tax Collection Receipts

**Deposits:**

The former Sheriff's deposits were insured and collateralized by bank securities.



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**ADAM H. EDELEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Matthew G. Bevin, Governor  
William M. Landrum III, Secretary  
Finance and Administration Cabinet  
Honorable Richard Armstrong, Clinton County Judge/Executive  
Honorable Ricky Riddle, Former Clinton County Sheriff  
Honorable Jim Guffey, Clinton County Sheriff  
Members of the Clinton County Fiscal Court

Independent Auditor's Report

**Report on the Financial Statement**

We have audited the former Clinton County Sheriff's Settlement - 2014 Taxes for the period April 16, 2014 through December 31, 2014 - regulatory basis, and the related notes to the financial statement.

**Management's Responsibility for the Financial Statement**

Management is responsible for the preparation and fair presentation of the financial statement in accordance with accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting as described in Note 1. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.



To the People of Kentucky  
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### **Auditor's Responsibility (Continued)**

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles**

As described in Note 1 of the financial statement, the financial statement is prepared by the County Sheriff on the basis of the accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

### **Adverse Opinion on U.S. Generally Accepted Accounting Principles**

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the former County Sheriff, as of December 31, 2014, or changes in financial position or cash flows thereof for the year then ended.

### **Opinion on Regulatory Basis of Accounting**

In our opinion, the financial statement referred to above presents fairly, in all material respects, the taxes charged, credited, and paid for the period April 16, 2014 through December 31, 2014 of the former Clinton County Sheriff, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

### **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated September 08, 2015 on our consideration of the former Clinton County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the former Clinton County Sheriff's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the former Clinton County Sheriff's internal control over financial reporting and compliance.



To the People of Kentucky

Honorable Matthew G. Bevin, Governor

William M. Landrum III, Secretary

Finance and Administration Cabinet

Honorable Richard Armstrong, Clinton County Judge/Executive

Honorable Ricky Riddle, Former Clinton County Sheriff

Honorable Jim Guffey, Clinton County Sheriff

Members of the Clinton County Fiscal Court

**Other Reporting Required by Government Auditing Standards (Continued)**

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2014-001 The Former Sheriff's Office Lacked Adequate Segregation Of Duties Over Accounting Functions
- 2014-002 The Former Sheriff Did Not Prepare And Print Daily Tax Collection Journals And Make Deposits Intact Daily
- 2014-003 The Former Sheriff Did Not Properly Account For All Tax Collection Receipts

Respectfully submitted,



Adam H. Edelen

Auditor of Public Accounts

September 08, 2015

CLINTON COUNTY  
RICKY RIDDLE, FORMER SHERIFF  
SHERIFF'S SETTLEMENT - 2014 TAXES

For The Period April 16, 2014 Through December 31, 2014

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 241,281	\$ 527,106	\$ 1,503,366	\$ 452,866
Tangible Personal Property	24,065	61,829	124,953	95,515
Fire Protection	971			
Franchise Taxes	11,681	29,256	61,988	
Adjusted to Sheriff's Receipt	(37)	(70)	(263)	(82)
Gross Chargeable to Sheriff	<u>277,961</u>	<u>618,121</u>	<u>1,690,044</u>	<u>548,299</u>
<u>Credits</u>				
Exonerations	723	1,632	3,562	1,644
Discounts	4,247	9,458	25,851	8,464
Transferred To Incoming Sheriff				
Real Estate	30,214	65,813	187,706	56,544
Tangible Personal Property	1,693	4,351	8,793	4,512
Franchise Taxes	<u>108</u>	<u>203</u>	<u>541</u>	
Total Credits	<u>36,985</u>	<u>81,457</u>	<u>226,453</u>	<u>71,164</u>
Taxes Collected	240,976	536,664	1,463,591	477,135
Less: Commissions *	<u>10,242</u>	<u>22,808</u>	<u>58,543</u>	<u>20,278</u>
Taxes Due	230,734	513,856	1,405,048	456,857
Taxes Paid	230,689	513,758	1,404,761	456,770
Refunds (Current and Prior Year)	<u>45</u>	<u>98</u>	<u>287</u>	<u>87</u>
Due Districts or (Refunds Due Sheriff) as of Completion of Audit	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

\* Commissions:

4.25% on \$ 1,254,775

4% on \$ 1,463,591

The accompanying notes are an integral part of this financial statement.

CLINTON COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2014

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The former Clinton County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

CLINTON COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2014  
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The former Clinton County Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). As of December 31, 2014, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2014. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2015. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 22, 2014 through December 31, 2014.

Note 4. Interest Income

The former Clinton County Sheriff earned \$60 as interest income on 2014 taxes. As of September 8, 2015, the former Sheriff owed \$31 in interest to the school district and \$29 in interest to his fee account.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





**ADAM H. EDELEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable Richard Armstrong, Clinton County Judge/Executive  
Honorable Ricky Riddle, Former Clinton County Sheriff  
Honorable Jim Guffey, Clinton County Sheriff  
Members of the Clinton County Fiscal Court

**Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards**

**Independent Auditor's Report**

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the former Clinton County Sheriff's Settlement - 2014 Taxes for the period April 16, 2014 through December 31, 2014 - regulatory basis and the related notes to the financial statement and have issued our report thereon dated September 08, 2015. The former County Sheriff's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statement, we considered the former Clinton County Sheriff's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the former Clinton County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the former Clinton County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying comments and recommendations, we identified certain deficiencies in internal control that we consider to be material weaknesses.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying comments and recommendations as items 2014-001, 2014-002, and 2014-003 to be material weaknesses.



Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

### Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Clinton County Sheriff's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations as items 2014-002 and 2014-003.

### Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Adam H. Edelen  
Auditor of Public Accounts

September 08, 2015



## COMMENTS AND RECOMMENDATIONS



CLINTON COUNTY  
RICKY RIDDLE, FORMER SHERIFF  
COMMENTS AND RECOMMENDATIONS

For The Period April 16, 2014 Through December 31, 2014

FINANCIAL STATEMENT FINDINGS:

2014-001 The Former Sheriff's Office Lacked Adequate Segregation Of Duties Over Accounting Functions

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A lack of adequate segregation of duties existed over all accounting functions. During our review of internal controls, we noted the former Sheriff's bookkeeper opened incoming mail, collected tax payments, prepared deposits, prepares bank reconciliations, prepared daily tax collection journals, prepared monthly tax reports, and prepared and signed tax checks.

A limited budget placed restrictions on the number of employees the former Sheriff could hire. When faced with a limited number of staff, strong compensating controls should have been in place to offset the lack of segregation of duties.

Lack of oversight could have resulted in misappropriation of assets and/or inaccurate financial reporting to external agencies such as the Department of Revenue and other taxing districts, which could occur but go undetected.

A segregation of duties over various accounting functions, such as opening mail, collecting cash, preparing bank deposits, preparing monthly reports or the implementation of compensating controls, when needed because the number of staff is limited, is essential for providing protection from asset misappropriation and/or inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities.

To adequately protect against misappropriation of assets and/or inaccurate financial reporting, the former Sheriff could have separated the duties involving the opening of mail, collecting and depositing of cash, and preparation of the monthly tax reports. If, due to a limited number of staff, that was not feasible, strong oversight over these areas could have occurred and involved an employee that wasn't currently performing any of those functions. Additionally, the former Sheriff could have provided this oversight and documented it on the appropriate source documents.

*Former Sheriff's Response: None.*

CLINTON COUNTY  
 RICKY RIDDLE, FORMER SHERIFF  
 COMMENTS AND RECOMMENDATIONS  
 For The Period April 16, 2014 Through December 31, 2014  
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-002 The Former Sheriff Did Not Prepare And Print Daily Tax Collection Journals And Make Deposits Intact Daily

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The former Sheriff did not prepare and print daily tax collection journals and make deposits intact daily. From the three (3) deposits tested, we noted the following deficiencies:

- Tax collection journals included two (2) to six (6) six days of tax collections.
- Cash and checks per the tax collection journals did not agree to the cash and checks per the deposit for all three (3) deposits tested.
- Per the former bookkeeper, overpayments received by check were occasionally refunded in cash; however documentation was not maintained to support amounts.
- Tax collection receipts were not accounted for separately from fee account monies. After accounting for tax collection checks, the deposit was forced to agree to the tax collection journal by depositing the difference in cash. Any overages were kept in the cash drawer.
- Four (4) tax bills collected at face amount were entered as discount in the tax collection software. The overage of \$13 was not deposited.
- Twenty two (22) checks were dated during the face value period; however collected at the discounted amount.

These deficiencies in internal control over the deposit and refund process were allowed to occur because proper controls and oversight over the deposit and refund process were not put in place by the former Sheriff. In addition, tax bills were not entered into the tax software when received which increases the risk of errors.

Failure to deposit taxes collected intact, delaying depositing taxes collected, or refunding overpayments of checks by cash increases the risk of fraud and misappropriation of cash.

This is a non-compliance with KRS 68.210 and 109 KAR 15:020. KRS 68.210 states, “The administration of the county uniform budget system shall be under the supervision of the state local finance officer who... shall prescribe and shall install, by July 1, 1985, a system of uniform accounts for all counties and county officials.” The *County Budget Preparation and State Local Finance Officer Policy Manual*, under minimum requirements for handling public funds, states “Daily deposits intact into a federally insured banking institution.”

The former Sheriff should have implemented controls and provided appropriate oversight over the deposit and refund process in his office to ensure all deposits were made intact daily and refunds of overpayments were properly documented. Daily tax collection journals should have been prepared daily and reconciled to the deposits. Any differences should have been documented and explained. In addition, overpayments by checks should be refunded by check to properly document the overpayment has been refunded.

*Former Sheriff's Response: None.*

CLINTON COUNTY  
RICKY RIDDLE, FORMER SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Period April 16, 2014 Through December 31, 2014  
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-003    The Former Sheriff Did Not Properly Account For All Tax Collection Receipts

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The former Sheriff's office did not properly account for all tax collection receipts. The former Sheriff transferred uncollected tax bills to the incoming Sheriff on January 6, 2015. On April 15, 2015, delinquent tax bills were transferred to the County Clerk as required by KRS 134.122. After the County Clerk mailed notices of delinquency, two (2) taxpayers presented proof of payment totaling \$788 made in November 2014 to the former Sheriff's office. This occurred due to the lack of internal controls over the collection and deposit of tax receipts. In addition, the former Sheriff's office does not account for tax collections separate from fee account monies. As a result, these payments were not properly included on a tax collection journal and remitted to the districts. The former Sheriff remitted personal funds of \$835 to the incoming Sheriff to remit to the districts on April 13, 2015. It appears the Sheriff overpaid \$47. Based upon the information provided, we are unable to determine if there are any additional paid bills not properly accounted for. Good internal controls dictate tax receipts be reconciled daily to a tax collection journal and deposited daily. The former Sheriff should have accounted for his tax account and fee account separately. He should have reconciled the tax collection journals daily with the deposit. We will refer this finding to the Office of the Attorney General for further review.

*Former Sheriff's Response: None.*

